

# 1. The National Bank as an enterprise

## 1.1 The principal missions of the National Bank

### 1.1.1 Money and monetary policy

It is with good reason that the general public regard central banks primarily as issuing institutions, as that was the activity that placed these institutions at the centre of the banking system and enabled them to perform the role of the “bank of banks”. It was also the issuing of currency that gave them their principal means of action.

Whereas originally it was the feudal lord or the monarch who had the power to confer validity on the currency, in modern times this ‘royal’ prerogative is regarded as an essential element of the sovereignty of States which – where banknotes are concerned – assign that right to specific institutions: the central banks.

Nowadays, for the seventeen European Union Member States which have adopted the euro as their currency, monetary policy is managed by a specific institution: the Eurosystem. It links the central banks of those seventeen countries and the European Central Bank (ECB), based in Frankfurt.

#### 1.1.1.1 CURRENCY, ISSUANCE AND SEIGNIORAGE

##### Currency production and circulation of currency

The National Bank has been creating and printing banknotes and placing them in circulation ever since it was founded in 1850. The euro coins intended for Belgium are minted by the Belgian Royal Mint and placed in circulation via the Bank.

The printing of euro banknotes is shared among secure printing works of the euro area. The Bank’s Printing Department specialises in producing € 50 notes which, with the larger denominations, have the most sophisticated security features in the series. It also conducts a great deal of research and development in the sphere of new printing and security techniques, partly with a view to the next series of banknotes for which the issue date has yet to be decided.

In the euro area, some 14.9 billion banknotes were in circulation at the end of 2011, compared to 8.2 billion at the end of 2002, the year in which the euro notes and coins were launched. The commonest denominations are the € 50 and € 20 notes. In 2011, they respectively represented 40.4% and 19.1% of the total circulation. Next come the € 10 (13.9%) and the € 100 notes (11%).

The number of counterfeit notes seized in the euro area declined from 751 000 in 2010 to 606 000 in 2011 (–19%), whereas the volume of banknotes in circulation has continued to rise in the past year. The most commonly forged denominations are € 20 notes; nevertheless, the number of counterfeits seized is no more than 0.0096% of the circulation of that denomination, followed by the € 50 (0.0034% of that denomination in circulation) and the € 100 (0.0058% of that denomination in circulation).

Every day, credit institutions withdraw and deposit banknotes and coins at the National Bank in Brussels and at the provincial branches via secure transport firms. The processing of banknotes is currently undergoing radical reorganisation. The cash centres of the commercial banks are separate from those of secure carriers, and that implies higher transport costs and risks. Moreover, the division of responsibilities has not previously been either clear or ideal. Secure carriers have developed their recycling centres, and the proportion of banknotes passing

back through the National Bank has diminished. However, as the central bank, the National Bank has a duty to keep watch over the quality of the currency in circulation, as that is the best safeguard against counterfeiting.

To improve efficiency and reduce the risks, the Bank offered the carriers the use of some of its premises as branches at cost price, with – in return – a clear division of responsibilities between the latter and the Bank, which will continue to operate the machines that actually recycle banknotes. This solution should also ensure that the Bank maintains a strong presence in its provincial branches, based on its core business. One partner responded positively to the call for tenders concerning this project, which will initially be set up at the Mons and Kortrijk branches. Banks welcomed the project because it reduces the number of transport operations and hence the costs, and means that they are credited more quickly. The police were also in favour, as there will be a corresponding reduction in their deployment to provide security for transportation and deposits. The Bank aims to adapt the buildings so that the whole plan can go ahead in 2013. Apart from this pilot project, the extension of the new methodology to central and eastern Belgium will be considered.

It must be remembered that it is not the Bank that determines the quantity of currency in circulation, but public demand. The main reason for the frequent deposits and withdrawals by credit institutions at the National Bank is the desire to minimise their stock of cash, since it does not bear interest.

Transactions in banknotes are monitored and recorded via an IT platform developed and housed at the Bank: the Cash Single Shared Platform (Cash SSP). This IT tool is also used by the central banks of Cyprus, Finland, Ireland, Latvia, Luxembourg and the Netherlands. The Maltese central bank has undertaken to acquire the same instrument from April 2012. At the request of the ECB Governing Council, the Bank also created an application which produces statistics on banknotes and coins. That application (Currency Information System 2) is operational throughout the Eurosystem and is linked to Cash SSP in the countries which have adopted it.

### Seigniorage

The terms “seigniorage” and “seigniorage income” denote the revenue which the issuer obtains from issuing banknotes. Nowadays, that revenue is collected by the central banks which hand it over to the State after deducting their costs.

Where does it come from? To understand that, it is necessary to remember that banknotes originated from the debt acknowledgements that bankers gave to their customers in exchange for deposits of precious metal from which they made a profit. Today, banknotes are obviously no longer issued in return for gold or silver deposits. Nowadays they are abstract monetary tokens, but central banks still record them as debts, on the liabilities side of their balance sheet. On the assets side, the corresponding entries include loans to commercial banks and foreign exchange reserves, which bear interest. It is the interest generated by these assets, based on unremunerated liabilities in the form of banknotes, that constitutes seigniorage income.

In the euro area, it is no longer possible to obtain an exact estimate of the currency in circulation for each participating State. The seigniorage is therefore shared out according to a fixed formula: the ECB receives 8% and the balance is shared among the national central banks in proportion to their paid-up share in the capital of that institution.

In all central banks, the allocation rules ensure that their surplus income in excess of their expenses accrues to the State, which is thus remunerated for conferring the right of issue. In Belgium, the rules on the allocation of the seigniorage income between the Bank and the State have changed over the years. Since 2009, the balance of the profits for the year – following the formation of the necessary reserves and remuneration of the shareholders – is allocated to the State.

The right of issue is not only the source of central bank income, it is also one of the instruments enabling central banks to perform one of their principal tasks, namely the implementation of monetary policy. To satisfy their customers’ demand for banknotes, credit institutions have to obtain the notes by borrowing from the central bank. The interest rate on those borrowings is the main instrument of monetary policy.

#### 1.1.1.2 MONETARY POLICY: OBJECTIVE AND INSTITUTIONAL FRAMEWORK

##### Objective: price stability

When States handed over the right of issue to the central banks, they also gave them the task of protecting the value of the national currency. In today’s Europe, that traditional task is reflected in the price stability objective assigned to the Eurosystem by the Treaty on the Functioning of the European Union (EU).

Both a generalised and persistent increase in prices (inflation) and a fall in prices (deflation) are detrimental for the economy. Prices are in fact the main information available to the economic agents for estimating the value of goods and services, but inflation and deflation disrupt that information by distorting relative values. They increase uncertainty and ultimately damage investment and growth. By ensuring price stability, central banks contribute to growth and employment. Price instability does not only affect economic efficiency, it also alters the value of contracts and savings, causing an arbitrary redistribution of incomes and assets.

In order to provide a stable anchorage point for expectations regarding price movements, and to place the public in a better position to judge the activities of the Eurosystem, price stability was defined as a rise in the harmonised index of consumer prices in the euro area of less than but close to 2 % per annum, a figure which has to be maintained in the medium term.

### Institutional framework

The euro area's monetary policy is conducted by the Eurosystem. Decisions are taken centrally by the ECB Governing Council, composed of the six members of the ECB Executive Board and the governors of the euro area national central banks. The preparation and implementation of the decisions are largely decentralised.

The entity composed of the ECB and the central banks of the EU, including those of countries which have not

adopted the euro, is called the European System of Central Banks (ESCB).

Committees of ECB and NCB experts prepare dossiers which are submitted to the ECB organs for a decision. There are fifteen such committees covering all the Eurosystem's areas of activity, from monetary policy to human resources and including statistics, market operations, banknotes, communication and IT. This method of working enables the national central banks to be closely involved in the preparation of dossiers submitted to the Governing Council and in the implementation of the decisions taken.

The Governing Council generally meets twice a month at the ECB's premises in Frankfurt. The first monthly meeting is specifically devoted to detailed analysis of monetary and economic developments and the resulting monetary policy decisions; the second generally focuses on the other tasks and responsibilities of the ECB. In accordance with the Maastricht Treaty, Governing Council members do not act as representatives of their country but act entirely independently, taking the decisions dictated by the interests of the euro area as a whole.

#### 1.1.1.3 PREPARATION AND IMPLEMENTATION OF MONETARY POLICY DECISIONS

##### Preparation

To achieve the Eurosystem's monetary policy objective, the ECB Governing Council reacts to the risks facing price

## Box 1 – Decision-making bodies of the ECB

### European Central Bank (ECB)

Executive Board (President, Vice-President and 4 members))

### National central banks of the euro area countries

17 governors

### National central banks of the other EU countries

10 governors



Source : BCE.

stability. This pre-emptive action is based on systematic analysis of the available information, organised in the form of two complementary pillars.

- *Economic analysis* identifies the short- and medium-term risks to price stability. It is based on a wide range of economic and financial indicators allowing detection of the shocks confronting the euro area and monitoring of the euro area's response. The macroeconomic projections produced by the Eurosystem's staff are also discussed by the Governing Council.
- *Monetary analysis* concerns the movement in a set of monetary and credit aggregates and provides information on the medium- and long-term risks to price stability. Those risks have to be assessed, in particular, on the basis of the links seen in the past between the quantity of money in circulation and the volume of lending, on the one hand, and prices on the other. It may also play a role in detecting financial asset price fluctuations associated with abnormal developments in lending which could affect financial stability since, although the monetary policy stance may have a moderating effect at this level, that cannot under any circumstances be at the expense of the price stability objective.

The national central banks play a key role in supporting these two forms of analysis by supplying the Eurosystem with first-hand economic research and statistics (see 1.1.3.).

### Implementation

The primary objective of monetary policy is price stability. However, the Eurosystem does not exercise direct control over prices, or even over the money supply. In fact, it issues banknotes in accordance with public demand, and those banknotes make up only a small proportion of the volume of cash held by firms and individuals in the euro area, the bulk consisting of bank deposits.

However, in order to acquire those banknotes, commercial banks have to borrow from the Eurosystem, which acts as the "bank of banks". In fact, it has a monopoly on the issuance of the banknotes which the commercial banks need to be able to supply to their customers. The national central banks open accounts for commercial banks, and the latter settle their mutual debts by means of central bank deposits. In addition, the ECB stipulates a minimum amount for those deposits, namely the reserve requirements.

The Eurosystem's monetary policy consists in modifying the conditions under which commercial banks can

obtain the liquidity which it provides. Those modifications in turn influence the conditions which the banks apply to the loans which they grant to their customers and to the deposits which they collect. The ECB Governing Council's decisions can thus affect the movement in prices. An increase in the Eurosystem's interest rates, by being reflected in the rates applied by the banks, will in fact encourage consumers and businesses to limit their borrowing, and that will restrain demand for goods and services and thus curb the rise in prices. Where there is a risk of inflation (a generalised and persistent increase in prices), the Governing Council will therefore take a decision of that type. Conversely, if there is a risk of deflation (a generalised and persistent fall in prices), it will cut the Eurosystem interest rate in order to lower bank rates. Such a decision in fact encourages demand for goods and services, counteracting the downward trend in prices. The interest rate may also be cut if the risks relating to inflation subsequently diminish as a result of a weakening of the outlook for economic growth, for example.

The Eurosystem has a range of instruments for achieving its monetary policy objectives. The national central banks are closely involved in their implementation, it being part of their role to act as a link between the ECB and credit institutions in each Member State.

**Open market operations** play a key role in the management of bank liquidity and the monetary policy stance. In normal times, the bulk of the liquidity is granted to the euro area commercial banks by a weekly tender for one-week loans. In the context of the financial crisis which erupted in 2007, however, injections of liquidity in the form of longer-term refinancing operations became predominant, while the fine-tuning operations gained importance. In order to participate in the tenders, commercial banks must first deposit collateral with their country's central bank. Contrary to normal practice whereby refinancing operations take the form of competitive tenders, since October 2008 tenders have been conducted "at fixed rates with full allotment". This new procedure was deemed appropriate in the context of a dysfunctional interbank market in the euro area, since it means that the banks can be sure of receiving all the liquidity requested from the Eurosystem. In addition to temporary operations injecting or absorbing liquidity, the Eurosystem can also conduct outright transactions for the purchase or sale of securities.

The **standing facilities** offer the euro area banks the opportunity to borrow or deposit funds for one day at pre-announced interest rates. They also perform a role in the general monetary policy stance, as they determine overnight money market rates. There is no borrowing or deposit limit for the use of the standing facilities, which

are managed in a decentralised manner by the national central banks.

The banks also have to constitute reserves in the form of deposits with the national central bank. The **reserve requirements** increase the banks' need to obtain refinancing from the Eurosystem, and are intended to stabilise money market interest rates. Since the obligation only has to be respected on average over periods of one month, the reserves may in fact vary from one day to the

next and absorb very short-term liquidity fluctuations due, for example, to variations in demand for banknotes. The minimum reserves carry interest corresponding to the rate on the weekly main refinancing operations.

Finally, the Eurosystem can buy or sell foreign currency against euros. It may thus **intervene on the foreign exchange market** or conclude **currency swaps** with foreign central banks, e.g. for the purpose of supplying liquidity in foreign currencies.

## Box 2 – Recent developments<sup>(1)</sup>

In the context of the financial crisis which erupted at the end of 2008 and the crisis in public finances at the beginning of 2010, the ECB made some fundamental changes to its monetary policy stance and took a series of exceptional measures to support the financial sector and safeguard the effective transmission of monetary policy.

### The monetary policy stance

Between October 2008 and May 2009, the central key interest rate was cut by 325 basis points to the historically low level of 1%. Up to the beginning of 2011, the Governing Council then considered that this particularly accommodating monetary policy remained appropriate. In 2011, two interest rate increases were followed by two cuts, of 25 basis points each. In the first part of the year, in a context featuring a favourable movement in economic activity and greater upside risks to price stability, the Governing Council raised the central key interest rate to 1.25% and then to 1.5% at its meetings on 7 April and 7 July. However, in view of the signs of a sharper-than-expected slowdown in the rate of expansion of economic activity and the adverse effects on financing conditions and confidence resulting from financial market tension, it cut the interest rate in two stages to 1.25% and then to 1% at its meetings on 3 November and 8 December.

### Non-standard measures

Throughout the crisis and in order to contain it, the ECB took a series of measures which profoundly modified its monetary policy framework. These "enhanced credit support" measures are intended to support borrowing conditions and credit flows in the private sector. Without prejudice to the price stability objective, they played a vital role from the point of view of financial stability by containing and mitigating the systemic consequences of the liquidity problems on the money market. The main measures include:

The adoption of a **fixed-rate full-allotment procedure** for all liquidity-providing operations. This measure was introduced in October 2008 to address the dysfunctioning of the interbank market. It was suspended temporarily in 2009 for 3-month operations, but was quickly reintroduced in the context of the public debt crisis. This procedure gives the banks access to all the liquidity they want at the rate of the main refinancing operations, so long as they have the necessary collateral.

(1) More details on these measures may be found in section 2.4 of chapter 2 of the 2011 Report on Economic and financial developments.



The conduct of **longer-term liquidity-providing operations**. Whereas, before the crisis, the maximum duration of the liquidity-providing operations was 3 months, since 2008 a number of 6- and 12-month operations have been conducted in order to support the banks' liquidity situation. At its December 2011 meeting, the Governing Council also decided to conduct operations extending over 36 months and offering the option of repayment after one year. These operations with a longer maturity are meant to reduce the banks' uncertainty over financing and thus support lending to the economy.

The **broader range of assets eligible as collateral** for liquidity-providing operations. This measure was adopted to facilitate the counterparties' access to Eurosystem liquidity. The first step was taken in 2009, while a further increase in collateral availability was decided in December 2011. The conduct of **currency swap** operations. These made it possible to supply liquidity, notably in US dollars, against Eurosystem eligible collateral. In 2011, in addition to the operations already conducted weekly, three 3-month operations of this type took place in October, November and December respectively.

The launch of **covered bond purchase programmes**. This concerned bonds backed by mortgage loans or claims on public authorities. The aim is to restore the proper functioning of asset markets which are important sources of funding for banks. A first programme which resulted in the purchase of covered bonds totalling around € 60 billion had taken place in 2009, while in October 2011 the Governing Council decided on a new programme for purchases amounting to a planned total of € 40 billion.

The **reduction in the reserve ratio from 2 to 1 %** from 18 January 2012. On account of its policy of granting unlimited liquidity, the Governing Council considered that the reserve requirement system was not needed to the same extent as under normal circumstances to steer money market conditions. It therefore adopted this measure in order to release collateral for the banks and support the money market.

Finally, an exceptional measure introduced in May 2010 in the context of the sovereign debt crisis is the **Securities Markets Programme**. This aims to purchase public debt securities on the secondary market in order to increase liquidity and depth in dysfunctional market segments and thus preserve the monetary policy transmission mechanism. While the initial purchases were concentrated in the weeks which followed the establishment of the programme, it was reactivated at the beginning of August 2011 in the context of very marked contagion of the sovereign debt crisis spreading to Italy and Spain. On 31 December 2011, the total amount of purchases of public debt securities came to € 211.5 billion under this programme.

## The Bank's role

As a member of the Eurosystem, the Bank intervenes at multiple levels in the decentralised process of executing monetary policy decisions, and particularly at the level of the liquidity-injection operations, the standing facilities and the reserve requirements.

In addition, it assesses the quality of the collateral lodged in order to obtain these loans, and arranges custody of the collateral. Under the common collateral management platform model, the securities lodged as collateral may be located in Belgium or abroad, the central banks acting as correspondents for one another.

## Liquidity-injection operations

Normal Eurosystem tenders are announced via the financial information networks. The Bank may also notify the banks individually. Bids submitted to the Bank by the stipulated deadline are forwarded to the ECB. In each Member State, a credit institution's bids can only be submitted by a single establishment (the head office or a designated branch). The ECB publishes the results, and credit institutions submitting a valid bid are notified individually. Once the results have been announced, the Bank settles the transactions taking account of the collateral lodged.

## Standing facilities

Every working day, the Bank makes available to authorised banks, against the lodging of collateral, an intraday credit facility intended to finance, during the day, the debit position recorded on the euro account opened in its books in the name of those banks. Following the system's daily closure, the banks clear the final balance on their settlement account, if necessary by using the overnight lending or deposit facilities. These standing facilities bear interest at rates set by the ECB Governing Council; under normal circumstances, those rates define the limits of the fluctuation margin for overnight interest rates.

## Reserve requirements

Credit institutions established in Belgium are subject to the obligation to constitute and maintain cash reserves with the Bank. These consist of special reserve accounts which must never record a debit balance. The Bank ensures compliance with these obligations and keeps all participants regularly informed of movements recorded on their reserve accounts.

These aspects are described in detail in the *General documentation on Eurosystem monetary policy instruments and procedures* and in the *Regulations regarding the National Bank's intraday credits and monetary policy transactions*, updated at the beginning of January 2011 and available on the Bank's website.

## Communication

While central banks have long been important centres for economic and financial information, communication is nowadays regarded as a strategic issue. All the Eurosystem partners also regard the need to render account as the legitimate corollary to the independence conferred on central banks by the Maastricht Treaty.

Every month, following the Governing Council meeting on interest rate decisions, the ECB President holds a press conference to announce the decisions taken and the reasons for them. The ECB has also published a precise definition of price stability<sup>(1)</sup>, in order to boost the effectiveness of its monetary policy: in view of the credibility which this institution enjoys, economic agents in fact tend to expect price movements to stay close to the stated target; in the event of a shock, that expectation means that the situation returns to normal more quickly.

(1) It is defined as an increase in the harmonised index of consumer prices of less than but close to 2% per annum, to be maintained in the medium term.

In line with this overall aim of openness in relation to the government, financial markets, businesses, universities and the general public, the Bank organises press conferences, presentations and symposia. It develops its communication tools on paper and via electronic media: economic research, reports, and statistical information.

## 1.1.2 Financial stability, prudential supervision and payment systems

### 1.1.2.1 FINANCIAL STABILITY AND PRUDENTIAL SUPERVISION

The year under review brought considerable expansion in the Bank's responsibilities for the maintenance of the financial system's stability. Historically in charge of the smooth operation of payment systems, the Bank also safeguarded the stability of the financial system as a whole. Since 1 April 2011, it has likewise been the supervisory authority for individual institutions.

The aim of prudential supervision is to examine whether financial institutions can meet their commitments, and hence to verify the adequacy of their organisation and their soundness. This supervision concerns the rules on organisation, solvency, profitability and liquidity. While microprudential supervision looks at individual financial institutions, macroprudential oversight concerns the financial system as a whole, including the interconnections between financial institutions. It aims to prevent the emergence of tension in the system as a whole, notably by keeping watch over financial stability and supervising systemic financial institutions. The financial crisis proved that the systemic risks had been underestimated, despite their potentially devastating impact on the entire financial system and the real economy, and demonstrated the limits of microprudential supervision of systemic institutions. The systemic risks need closer monitoring. Macroprudential oversight is likewise worth developing to include all sectors.

Moreover, the limits of the traditional distinction between microprudential supervision and macroprudential oversight centred on the maintenance of financial stability also became apparent during the crisis. The desire to improve their coordination was therefore one of the main motives for reforming the method of organising supervision, at both Belgian and European level. Internationally, there has been a tendency to strengthen the role of central banks in the prudential sphere.

## Reforms of the European architecture

As a result of the financial crisis which began in 2007, it was felt necessary to move towards more integrated

prudential supervision at European level, to match the increasing integration of the financial markets and ensure more uniform application of the prudential legislation across the European Union. In September 2009, following the recommendations issued in February 2009 by the Committee of Experts chaired by Jacques de Larosière, the European Commission (EC) presented a set of legislative proposals aimed at reinforcing the prudential supervision framework and reducing the likelihood and seriousness of financial crises in the future, by setting up the European System of Financial Supervision (ESFS). This was established on 1 January 2011. It aims to ensure not only better systemic risk prevention but also the necessary harmonisation of prudential rules and practices at European level, while reinforcing cooperation between national authorities.

The ESFS comprises the European Systemic Risk Board (ESRB), the European macroprudential supervision body, and the European Supervisory Authorities (ESAs), responsible for strengthening microprudential supervision in Europe. There are three ESAs: the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA) and the European Securities and Markets Authority (ESMA).

The Bank is a member of the ESRB, the EBA and the EIOPA, both as a national central bank and as a national authority responsible for the prudential supervision of credit institutions and insurance companies.

### Reforms of the Belgian architecture

Following the review of financial sector supervision in Europe, a similar process was launched in Belgium on changes to the prudential supervision architecture.

On the basis of the recommendations of the Special commission of inquiry into the financial and banking crisis and the Lamfalussy Committee, and drawing inspiration from developments in other EU countries, the Belgian authorities decided to make changes to the supervision of the financial sector, and more specifically the interaction between the Bank and the former Banking Finance and Insurance Commission (CBFA), switching to a 'twin peaks' model. The foundations of the new architecture were laid by the Law of 2 July 2010.

In view of the radical impact of this reorganisation (particularly the need to amend more than 25 current laws), it was decided to conduct this restructuring in two stages. The first – transitional – stage saw the establishment of the Committee for Systemic Risks and System-relevant Financial Institutions (CSRSFI). Chaired by the Governor of the Bank, it comprised members of the Bank's Board

of Directors and the CBFA's Management Committee. The CSRSFI was operational from 21 October 2010 to 31 March 2011. It was responsible for the surveillance of systemic risks and the prudential supervision of systemically important financial institutions (SIFIs).

The new supervision model proper was established by the promulgation of the Royal Decree of 31 March 2011. Since that date, financial supervision has been based on two pillars. One pillar is the Bank, which will from now on perform the various macroprudential and microprudential supervision functions, and the other is the 'new CBFA', renamed the FSMA (Financial Services and Markets Authority), responsible for supervising financial markets, investment instruments, financial product marketing, and the rules of conduct applicable to financial sector players, and protection for consumers of financial services. This wide-ranging Decree conferring special powers entered into force on 1 April 2011.

### Reforms of the Bank's organisation

The introduction of the 'twin peaks' model and the integration of prudential supervision at the Bank was the occasion for rethinking the organisation of this area of activity while taking advantage of all the opportunities for synergy with the other National Bank entities. One of the reasons why the lawmaker wanted the central bank to combine all the activities concerning financial stability and prudential supervision is that the Bank possesses skills and data which are particularly useful for the performance of those tasks. The new-style organisation of prudential supervision at the Bank formed the subject of a joint review involving the Board of Directors and the managerial staff concerned, which led to definition of the main principles and basic organisational structure of the new model.

This model was designed according to the 'four-eyes' principle, which is based on a vertical approach combined with a horizontal approach. The vertical analyses are conducted by operational supervision teams who assess the business as a whole and coordinate the supervision on the basis of a risk analysis and an audit plan for each institution. At the same time, the horizontal analyses of the sector as a whole and of each type of risk considered separately are intended to determine the risks and vulnerabilities in a transverse perspective. In that way, these analyses contribute to the assessment of the risk profile of each individual institution by permitting a better understanding of the complexity of the financial business. This integrated risk assessment process also receives support from the other Bank entities, which contribute their expertise in macroeconomic analysis or their knowledge of financial markets for the benefit of prudential supervision.



In practice, five autonomous services are responsible for exercising supervision. The Prudential Policy and Financial Stability Service defines the prudential policy, identifies vulnerabilities, particularly systemic ones, and conducts horizontal analyses on the sector and on the various types of risks and their interactions. This service is responsible for the horizontal dimension of supervision.

Operational supervision is conducted by the three autonomous services entrusted respectively with the supervision of banks and investment firms, insurance and reinsurance companies, and market infrastructures. These services are responsible for the vertical dimension of supervision. A fifth service is in charge of transverse operational functions for other operational services. This concerns, in particular, the supervision of the IT systems of financial institutions and the quantitative validation of the internal models used by banks and insurers to calculate the capital requirements.

Finally, integration made it possible to restructure the work of supervision itself according to a number of key principles. The crisis highlighted the need for a stronger

presence within firms. From now on, it is therefore necessary to make more comparisons between two approaches: the one involving continuous analysis of the file and the reporting, and the other entailing direct on-site inspection. In order to ensure that the analysis is independent and objective, it was decided to create on-site inspection teams separate from the supervision teams. This two-pronged approach strengthens the diagnostic function. The possibility of comparing the point of view of the operational services on the same file with that of the more horizontal services may reveal diagnostic differences. In that case, perfect transparency will prevail: the Board of Directors must be notified of the points of view in question and decide for itself. It is therefore essential to pass on all relevant information to the Board. Finally, the integration of prudential supervision at the Bank reinforces the supervisory authority's function in giving signals to the financial sector and fostering a good practice benchmark via the tradition of communication between the Bank and the sector. Moreover, the integration of prudential activities at the Bank has considerably increased team permeability and competence mobility, providing a service better suited to the needs of a changing economy.

## Box 3 – The five prudential services

### Prudential Policy and Financial Stability

Using a 'four-eyes' approach, this service has the task of helping to identify and analyse risks in the financial sector and ways of coping with them by developing expertise covering the micro and macro dimensions of financial stability and prudential supervision. That task is carried out in particular by:

- defining and developing prudential rules and standards at both national and international level;
- implementing the rules and standards in the regulation and supervision instruments;
- identifying and assessing systemic risks and developing specific tools;
- supervising structural and cyclical financial stability;
- developing a macroprudential policy;
- ensuring consistency in the approaches of the 'vertical' services.

### Prudential Supervision of Banks and Stockbroking Firms

The supervision of banks and investment firms is conducted by two entities, namely the Complex Banking Groups Unit and the International and Domestic Banks Unit.

The Complex Banking Groups Unit is intended to foster the stability of the Belgian financial system by promoting the security and good health of systemically important banking groups, and by aiming to reduce the adverse impact of a bank failure on the Belgian system. The unit supervises the four systemic groups, namely BNP Paribas Fortis, Dexia, ING and KBC. These groups in turn comprise around twenty Belgian subsidiaries and an even larger



number of foreign subsidiaries and branches. This supervision of international groups is conducted by colleges of supervisors comprising the supervisory authority of the country of origin of the bank concerned and the authorities of the countries where that bank is active. In these colleges, the Bank performs the role of either home supervisor (Dexia and KBC), or host supervisor (BNP Paribas Fortis and ING).

The International and Domestic Banks Unit supervises institutions which vary in size, nature and risk profile. They range from independent Belgian banking groups with a varied product range to subsidiaries of foreign banking groups, and include banking groups and institutions focusing on a niche market and various large, medium-sized and small investment firms. It also supervises a number of bank holding companies.

For each banking group, there is a multi-disciplinary team headed by a coordinator. A special team of inspectors is responsible for audits.

### Prudential Supervision of Insurance and Reinsurance Companies

As at 1 January 2012, the service in question supervises 108 Belgian insurance companies offering non-life insurance (motor, fire etc.), life insurance and reinsurance. In addition, around fifty subsidiaries of companies based in the European Economic Area are also active on the Belgian market, and more than a thousand have indicated their intention to sell insurance products on the Belgian market via freedom to provide services, even if they are not all actually active on that market.

The purpose of supervision is to protect the interests of the insured persons, i.e. essentially to ensure that companies respect the statutory obligations and will be able to meet their commitments to policy-holders.

The supervision staff are divided into three groups, responsible respectively for systemically important insurance companies, foreign group subsidiaries, and purely local firms.

In accordance with the principles set out above, on-site inspections are entrusted to a separate team which applies the audit methodologies.

The service is also responsible for monitoring international work concerning the insurance sector: participating in the work and thus contributing to decisions, reviewing the results at national level and assisting colleagues in the service in order to involve them in the application of supervision.

In this connection, the service is currently focusing on the Solvency II Directive. It is helping to draw up measures for implementing the Directive, notably in the EIOPA working groups (see point 1.1.2.1. on reforms of the European architecture), and to transpose the Directive and the implementing measures into Belgian law. It is also conducting the dialogue on this subject with the firms which have to prepare to apply the new rules and adapt their prudential practices. All this work is being done within the supervision service by a dedicated team called the Solvency II Task Force. The Solvency II Directive is based in some respects on a radically different idea of the requirements which insurance companies must fulfil, which implies a major change not only to the Belgian regulations but also to the actual philosophy of the prudential supervision of firms.

### Prudential Supervision of Market Infrastructures and Oversight

The market infrastructures take charge of organising transfers of funds, securities, derivatives or other financial transactions between the various participating institutions; they include payment systems, securities systems, central counterparties and central transaction databases. In addition, there are also some suppliers of services



regarded as critical for the proper execution of the transactions which these systems handle. Numerous infrastructures of this type, essential for the smooth operation of the financial system, are based in Belgium. The prudential supervision of those systems consists in verifying whether the institutions concerned respect the laws and regulations applicable to them, while oversight consists in monitoring the secure and efficient operation of those systems.

### Specific Operational Functions in the field of Prudential Supervision

In the course of the reorganisation of prudential supervision, a range of transverse functions were brought together within this new service, which engages in four types of activities. It is in charge of supervising IT risks and their management in firms subject to supervision, by means of on-site inspections. The purpose of the audit of the risk models is to assess the mathematical and statistical models used by banks, insurance companies and market infrastructures, *inter alia* for the purpose of calculating the capital requirements. This service is also in charge of analysing the Bank's prudential supervision procedures with a view to optimising efficiency and preparing for automation. Finally, it centralises a number of operational tasks, such as analysis of the integrity and experience of the directors of the supervised companies, notifications of activities concerning freedom to provide services by foreign firms, and the help desk for reporting applications used by the supervised companies.

Three consultation bodies were created within the Bank to ensure that the new supervision model functions effectively and to optimise the circulation of information. They illustrate the desire to ensure that the transverse character of the approaches, the circulation of information and the guiding 'four-eyes' principle are enshrined in practice.

The **Prudential Supervision Coordination and Planning Committee** aims to guarantee the good operational organisation of prudential supervision by ensuring the optimum allocation of resources, particularly in terms of staff and IT, planning, coordination of micro- and macroprudential activities etc. It is chaired by the Bank's Secretary-General and comprises representatives of the prudential and non-prudential services concerned with these operational and organisational questions. It ensures that the four-eyes principle is enshrined in working procedures and prudential practice. Its 'inspection' working group is intended to standardise and optimise the working procedures for the entire inspection process in terms of planning and validation, as well as monitoring, objectivity and quality, communication and information management.

The **Risk Committee**, chaired by the Director responsible for the Prudential Policy and Financial Stability Service, comprises the heads of the various prudential services; it therefore fulfils the need to coordinate their activity. It pilots the risk analyses conducted by the various teams which specialise in particular types of risk or topics (risk teams), including by setting their priorities. It ensures that

the lessons learnt by teams on the ground and the results of the transverse analyses get back to the other Bank entities and to the Board of Directors, and ensures that the latter's guidelines and decisions are passed on to the players on the ground. It therefore acts as an interface with the Board of Directors, supplying it with a clearly explained opinion on regulation and supervision issues. By its work, the Committee guarantees consistent application of the regulations and encourages cooperation, the exchange of experience and the creation of synergies between the various prudential services. By the same token, it is one of the bodies which demonstrates the implementation of the four-eyes principle which governs the organisation of the Bank's prudential activity.

Quite naturally, the Committee devoted its initial activities to monitoring the transverse analyses of the main risk categories. For instance, at the request of the Board of Directors, it arranged an in-depth examination of sovereign risk, both by monitoring of the exposures of banks and insurance companies and by analysis of the prudential treatment (such as the extent of write-downs and capital requirements, etc.) of sovereign risk exposures.

It also initiated comparative analyses between the large Belgian banks of the parameters for assessing other credit risks, particularly corporate credit and mortgage credit. In addition, it prepared an action plan for defining the prudential policy on combating money-laundering and for ensuring the periodic, harmonised monitoring of liquidity

risk. With regard to systemic risk, it coordinated the work on a methodology for identifying institutions of systemic importance for the Belgian financial system, and for establishing recovery and resolution plans.

For these various items, the issues were analysed by risk teams; after that, the question was debated by the Risk Committee, then passed on to the Board of Directors for a decision and/or modifications.

Finally, the **Macrofinancial Committee** aims to improve understanding of the interactions between the real sphere and the financial sphere by establishing synergies between the Bank's prudential and non-prudential entities in regard to macroprudential surveillance. Its composition, combining representatives of the Prudential Policy and Financial Stability Service and those from the Research, Financial Markets, Statistics, Microeconomic Information and International Coordination and Eurosystem Departments, illustrates the desire for a transverse approach making best use of the data and expertise present in the various entities of the Bank. It is chaired by a member of the Board of Directors who is not in charge of any prudential

service, and is a forum for the exchange of information on macrofinancial developments in Belgium and in countries where Belgian institutions have exposure, and on structural developments which could affect financial stability. It informs the Risk Committee and the Board of Directors of new macrofinancial risks and suggests new areas for analysis. It thus provides information for the prudential services while helping to enrich the analysis conducted by other departments.

Examples of issues which it examines repeatedly include the updating of a Risk Dashboard, for the monthly presentation of changes in macroeconomic and financial risks, research on the economic situation, research on countries where Belgian banks have exposure, analysis of market reactions and sovereign crises, the property sector, etc. The majority of these analyses give rise to interdepartmental collaboration. The Macrofinancial Committee also aims to examine other more *ad hoc* issues according to current events or on a structural basis (counter-cyclical reserves of own funds, degree of competition on the mortgage market, efficiency of the non-standard monetary policy measures, etc.).

#### Box 4 – Integration of prudential supervision: an organisational and logistical challenge

Integration of the prudential supervision activities within the Bank entailed the transfer of 191 staff from the old CBFA, guaranteeing the continuity of the prudential activity. This presented a major challenge in many areas, such as human resources management, premises and IT, especially as uncertainty persisted until the final weeks preceding the actual integration. It must also be pointed out that this large-scale project had to be included on the Bank's agenda and required substantial organisational measures in a period when the crisis was raging and making very heavy demands on the staff. The Bank coordinated the operation from a central point, while an integration committee comprising the Bank's Board of Directors and the CBFA's Management Committee piloted the overall arrangements with the primary aim of ensuring seamless continuity of the activities.

The integration of the new staff prompted the Human Resources Department to set to work without delay on harmonising the staff working conditions, in consultation with the staff representatives. Initiatives were taken, e.g. in regard to internal communication, to align the corporate cultures of the entities concerned and enable the two population groups to get to know one another better. The new staff were offered information sessions on all aspects relating to their new assignment, while presentations covering the new skills relating to prudential supervision were arranged for the Bank's managerial and supervisory staff. Finally, as soon as the new system of organising prudential supervision was known, work began on translating it into organisation charts; these are to be finalised in the first half of 2012.

The necessary transfers of IT applications constituted a difficult challenge, as it was important to minimise any inconvenience which this operation caused for both internal and external customers. With that in mind, IT experts from both the institutions concerned worked together openly and efficiently. By the spring of 2010, a schedule of crucial applications had been drawn up, and an assessment of the necessary resources had been proposed to the



integration committee, after which the latter opted for a two-stage scenario. The first concerned all the applications necessary for the performance of the new tasks, for which the transition took effect from 1 April 2011. For everything concerning the activity of the data centre which the Bank provided for the CBFA as part of the closer links which the authorities had favoured, the deadline for the transfer to an outside firm was set at 30 September 2012. So far, the timetable drawn up by the Bank in regard to IT has been duly respected.

Logistically, the relocation of the new staff was completed in one weekend. The preparations were complicated by the uncertainty which persisted for a long time about the chosen organisational structure, and even about the number of staff concerned. Half of them were installed in temporary offices, though they had all the necessary infrastructure, while the rest were able to move immediately into offices meeting the new standards, with high-quality sound and heat insulation and new air-conditioning techniques. Archive premises were made available specially, and mail-recording techniques were adapted.

The integration of prudential supervision had a major impact on the activity of the Bank's Legal Service, which had the task of revising the Organic Law and was consulted on a substantial number of issues arising from the integration of the new activity. From now on, it will also be involved day-to-day in the handling of actual prudential issues, which have a significant legal dimension; it was necessary for the corresponding management procedures to be clearly defined. The service was therefore expanded by the addition of a Prudential Law Unit consisting mainly of lawyers transferred from the former CBFA.

Following the addition of the prudential activity, the number of dossiers which the Board of Directors has to deal with has increased considerably. It therefore seemed desirable that purely administrative issues which only concern the Bank as an enterprise should not unnecessarily overload its agenda. In addition, there was felt to be a need for a body to ensure the efficient management of agendas, minutes and file distribution and to monitor the implementation of decisions. Finally, it seemed particularly important for all files to be examined closely in legal terms, to form the subject of detailed consultation with all the entities concerned, and to be communicated properly and consistently to the outside world. For all these reasons, the post of Secretary-General was created at the Bank. By adopting this traditional management structure, the Board of Directors is now able to delegate to a Chief Operations Officer a large part of the purely organisational work.

### Supervision of the market in public debt securities

The Bank is responsible for the day-to-day management of the Securities Regulation Fund. Apart from its activities aimed at ensuring the liquidity of the government bond market, this autonomous public institution regulates and supervises the secondary market in government securities. It also assists the Debt Agency in the management of the public debt.

#### 1.1.2.2 MANAGEMENT OF PAYMENT SYSTEMS

There are several factors accounting for the involvement of central banks in the sphere of payment systems. The transmission of monetary policy impulses requires secure and efficient payment systems. Those two qualities are also necessary for the stability of the financial system as a whole.

### Payments in the European Economic Area

The aim of the SEPA (Single Euro Payments Area) project is that, in the European Economic Area plus Switzerland, credit transfers, direct debits and card payments and withdrawals should be standardised, efficient and cheap.

In Belgium, the consultation necessary to achieve that standardisation is organised by the Belgian Financial Sector Federation (Febelfin), in close collaboration with the Bank. Decisions on the subject are validated by the SEPA Forum, chaired by the governor of the Bank and comprising Febelfin, the big banks, the Post Office and the manager of the Banksys electronic payment systems, Atos Worldline. The aim is to ensure the transition to SEPA while safeguarding or even improving the efficiency achieved by the current payment systems.

The share of the European credit transfer in the total number of credit transfers in Belgium increased from around 33.3 % at the end of 2010 to 47.7 % at the end of 2011. That success is attributable mainly to public authorities and large companies. European direct debits are also gradually coming into use.

On the basis of a proposal of the European Commission, the European Parliament and the Council have approved a Regulation on technical and commercial requirements for credit transfers and direct debit transactions in euros. This Regulation, which was adopted in mid-March 2012, sets the date of 1 February 2014 for the conversion of all national credit transfers and direct debits to the European format.

### Eurosystem projects

It was in July 2008 that the ECB decided to develop TARGET2-Securities (T2S). T2S will be a single IT platform for the settlement of securities for the euro area and other interested markets in Europe. This platform will therefore make a decisive contribution towards eliminating differences between national and cross-border transactions, and thus towards improving the efficiency of the settlement of transactions in securities. The project is being conducted in close collaboration with all parties concerned: securities trading systems, the banking sector, national central banks, etc. In the past few years, the main focus of attention has been the development of the system's functional and technical characteristics, its legal and contractual framework and the project management framework, user requirements, pricing and planning. At the end of last year, the framework agreement was approved and proposed to potential users, who are asked to sign it in the coming months as final confirmation of their participation in the system.

T2S is based on the TARGET2 system. Operational since November 2007, this system settles euro-denominated payment orders in real time in the books of the Eurosystem central banks. In 2011, credit institutions based in Belgium exchanged on average 10 041 transactions per day, compared to 9 268 in 2010, for an average daily value totalling € 85.9 billion, against € 78.2 billion in 2010.

### National payment systems

At national level, the Bank is responsible for the management of the NBB-SSS and the CEC.

The **NBB-SSS** (National Bank of Belgium – Securities Settlement System) handles the settlement of fixed-income

securities. The number of transactions settled increased by over 25% in 2011 to a record 1 195 million transactions. This large rise was due to the sovereign debt crisis, and to year-end fiscal measures (taxation of material securities). Every day, the system settled transactions averaging € 39 billion. The outstanding total was up by € 20 billion. Apart from the latest State notes which enjoyed considerable success, a number of mortgage loan securitisation programmes were placed in December. Those issues account for the increase in the total.

The **CEC** (Centre for Exchange and Clearing) handles virtually all interbank non-cash payments in Belgium. On average, 4 900 000 transactions per day were effected via the CEC in 2011, an increase of 5.5 % against 2010. The average daily amount came to € 3.5 billion.

### 1.1.2.3 SECTORAL CRISIS MANAGEMENT

The year 2011 marked a turning point in the operational crisis organisation concerning the main players in the Belgian financial sector, referred to as systemic critical players. A new method of organisation and a new single crisis procedure were introduced after the abolition of the Financial Stability Committee (FSC), followed by the Committee for Systemic Risks and System-Relevant Financial Institutions (CREFS-CSRSFI), which had succeeded it in 2010 to deal with these questions concerning sectoral operational risk. The old procedures were incorporated in a single structure with a single point of contact, a single decision-maker at the start of a crisis, and a single crisis unit.

This single crisis unit comprises permanent members and ad hoc members appointed according to the characteristics of the crisis. It performs all the functions of assessment, decision-making and communication. This procedure can be used in any crisis, be it operational or financial, internal to the Bank or affecting another critical player in the financial sector.

In 2011, the Bank also decided to pursue the monitoring of the operational crisis management of critical players in the sector via a new structure, the OCCO (Operationele crisis – Crise opérationnelle), which, from 2012, will replace the Permanent Structure for the monitoring of FSC recommendations regarding business continuity.

### 1.1.3 Research and statistics

Central banks are major research centres; that function gives them a key position in the study and analysis of economic phenomena. Moreover, unlike many of its opposite numbers, the Bank is an important statistical institute,

giving it access to first-hand data for the performance of its role in monetary policy and prudential policy. Some of these statistical tasks were assigned to it directly by the government.

#### 1.1.3.1 RESEARCH

The Bank contributes to research and analysis work facilitating a more accurate diagnosis of the economic situation of the euro area, macroeconomic forecasts and understanding of the monetary policy transmission mechanisms and interactions with other economic policies. It takes part in the preparation of the macroeconomic projections for the euro area on the basis of the national forecasts. The main results of the projection exercise for Belgium are published in June and September in the Bank's Economic Review.

The Bank's economists also participate in a number of networks comprising research teams from the ESCB and universities. The *Euro Area Business Cycle Network* analyses cyclical developments in the euro area. The *Wage Dynamics Network* studies the characteristics and determinants of adjustments to wages and labour costs, and their monetary policy implications. The *Macroprudential Research Network* aims to develop conceptual tools which could lead to improvements in macroprudential supervision in the European Union, particularly macrofinancial models, warning systems and systemic risk indicators, and the analysis of contagion risks. Finally, the *Household Finance and Consumption Network* analyses the link between the financial situation of households and their consumption patterns. In that connection, an in-depth survey was conducted in 2010 on the financial behaviour of Belgian households. In principle, it will be repeated in 2013.

Moreover, in order to keep constantly informed of the latest situation regarding research while encouraging university research projects in the monetary and financial sphere, the Bank organises joint projects whose findings are presented at twice-yearly international scientific conferences and specialist seminars on macroeconomics, on the one hand, and – since October 2011 – on the analysis of firm-level data, in collaboration with Belgian universities. Apart from its permanent teams, it takes on prominent economists for a maximum term of two years and offers internships lasting from three to six months for young researchers working within its sphere of competence.

The desire to stimulate research and economic analysis is accompanied by a policy of active publication. The Bank publishes the *Research and Document* series of *Working*

*Papers*, and an *Economic Review* supplying information on recent economic, financial and monetary developments (see 1.4 in regard to the year 2011). This work regularly leads to publications in international scientific journals. Finally, it publishes an Annual Report on economic and financial developments and on financial stability and prudential policy.

#### 1.1.3.2 STATISTICS

The Bank holds a leading position in Belgium's financial and economic statistical system. The many statistics which it produces in these fields help to inform the national and international authorities about the various facets of the country's economic and financial activity, and are of great interest for monetary policy and the operation of prudential supervision. For many years now, the Bank has been the entry point for data used in the prudential supervision of banks and insurance companies, verifying those data before passing them on to the CBFA. The incorporation of this branch of activity in the Bank has considerably reduced the length of this work sequence, improved cooperation with the prudential services and thus enhanced the efficiency of the work in this area. The prudential services now have direct access to the statistical databases compiled by the Bank and have a more accurate picture of the whole range of figures available. At their request, and in the context of the financial crisis, new statistics have been developed and their sources expanded.

Largely standardised at European level, these statistics all provide a first-hand source of information which the Bank uses as the basis for its research activities. They are also integrated into the statistics of the EU and the euro area, and contribute to the indicators monitored by the European Systemic Risk Board.

Efforts made in recent years have improved the quality of the data collected, increasing the level of detail and optimising the data circulation while reducing the administrative burden on enterprises. Over the years, the Bank has thus developed a single portal for the collection of data via the internet. The latest version, called One Gate, is simple and flexible. This platform does not require respondents to make any investment or install software, and it accepts data in XBRL, the protocol which is tending to become the international standard for business data. The Banque de France decided to join in the development of this platform in 2009. Its international potential has since been confirmed by the choice of One Gate as the data collection portal for the new European Banking Authority, operational since 1 January 2011.

The statistics compiled by the Bank cover a number of subjects:

The **national accounts**, compiled by the Bank on behalf of the National Accounts Institute, offer a view of the country's economic transactions. Apart from the components of the main aggregates such as gross domestic product (GDP), they supply detailed information by economic sector and by branch of activity. A regional breakdown is provided for a growing number of variables. Detailed accounts are published once a year, but estimates of the main variables are available quarterly. An estimate of quarterly GDP is published thirty days after the end of the reference quarter, followed – two months later – by brief quarterly accounts which are keenly awaited by the ECB.

The **financial accounts** are a sub-set of the national accounts. They identify the financial instruments in which the various sectors of the economy place their surpluses, and by which they finance their deficits. They are the principal tool for the macroeconomic monitoring of the preferences of the various economic players in terms of investment and financing. The financial accounts, combined with the national accounts, thus form the basic reference for prudential analysis. In regard to financial instruments, the Bank has one of the most complete databases in Europe. The detailed quarterly financial accounts are sent to the ECB, which uses them to compile consolidated data at European level.

The statistics produced in connection with the **excessive deficit procedure** focus on the Belgian budget balance and public debt. They are compiled on the basis of the financial and non-financial accounts of general government, and are forwarded to the European Commission. In the context of the problems facing public finances in a number of European countries in recent years, the Commission keeps a very detailed check on these key statistics, for both economic policy and the financial markets. Since the setting of the convergence criteria which permitted the introduction of the euro, the public finances of euro area countries have been kept under close surveillance by the ECB.

The **balance of payments** statistics are a significant economic indicator both at national level and for the euro area, where they form part of the statistics on which ECB monetary policy is based. They permit the recording of external factors (goods and services, incomes, transfers and capital) which contribute to the formation of gross national product. They incorporate in aggregate form the net **foreign trade statistics**, which cover exports and imports of goods by product and by country, and their regional breakdown. Like the national accounts, the foreign

trade statistics are compiled by the Bank on behalf of the National Accounts Institute. Accompanying the balance of payments, the statistics on direct investment concern capital transactions and other financial flows between Belgian enterprises and their foreign associates.

The **monetary and financial statistics** are forwarded regularly to the ECB, as they represent vital information for monetary policy. The demand from prudential services is also tending to extend the scope of the financial statistics to gradually include the financial sector as a whole.

The statistics concern, on the one hand, monetary financial institutions (central bank, credit institutions and monetary undertakings for collective investment) and other financial institutions (non-monetary investment undertakings, pension funds, insurance companies, etc.), and, on the other hand, the money market and the capital market (share issues, shareholdings, movements in interest rates, etc.). In this field, there is also the Bank Lending Survey, which proved particularly useful in the context of the financial crisis. The data collected by this survey are compared with those on the same subject obtained from business surveys covering non-financial corporations.

These **business surveys** permit monitoring of the opinions of business leaders and consumers on the Belgian economic situation. Since they anticipate economic activity in the euro area, some of these cyclical indicators attract a great deal of interest, not only in Belgium but throughout Europe.

The Bank's statistics and research are available on its website. This site has facilities for arranging subscriptions; it also offers access to Belgostat, a statistical database with many functionalities, regularly adjusted in line with user requirements.

### 1.1.3.3 OTHER INFORMATION

The Bank also collects a mass of economic and financial information which supplements the available macroeconomic statistics. High-quality information on the financial situation of firms can in fact contribute to a good understanding of the economic mechanisms. In that regard, the Bank is particularly well placed since it has been made responsible by law for managing two central business databases: the Central Corporate Credit Register and the Central Balance Sheet Office.

#### Central Corporate Credit Register

Corporate credit is one of the channels whereby monetary policy decisions influence the economy. Moreover, the



data on this subject permit a better assessment of credit risk. It is therefore of particular interest to the Bank, both in the exercise of monetary policy and in connection with prudential policy. In the context of the global economic crisis, the subject requires even closer attention.

The Central Corporate Credit Register records for each borrower all loans of € 25,000 or more granted for business purposes by credit institutions based in Belgium. For those concerned, that information is a key factor in the assessment of their credit risk. This Central Register exchanges its data with its counterparts in six countries: Germany, Austria, France, Italy, Portugal and Spain

On 1 May 2012, a new legal framework will enter into force to permit the collection of data intended to enhance credit risk assessment. In addition, the reporting threshold of € 25 000 will be abolished, doubling the number of borrowers recorded to more than 800 000. Other types of financial institutions (leasing and factoring companies) will also be required to report data to the Central Register. These significant developments will substantially enrich the data available to the Bank, data which it will use to perform the tasks entrusted to it in the field of prudential supervision and financial stability, and for the compilation of statistics.

### Central Balance Sheet Office

Most enterprises in which the liability of the shareholders or partners is limited to their contribution – and certain other enterprises – have to publish their annual accounts and, if appropriate, their consolidated accounts, filing them with the Bank's Central Balance Sheet Office. Large and very large non-profit associations and private foundations, and foreign legal entities, also have to file their accounts with the Central Balance Sheet Office. Those accounts include a social balance sheet giving information about employment.

On the basis of the information collected, the Bank produces standardised series for the purpose of economic analysis. In 2011, 99.5% of accounts were filed via the internet.

Since the beginning of January 2011, all annual and consolidated accounts filed since 1 January 2005 have been available on the internet free of charge in PDF format. The number of sets of accounts consulted in that way increased from 414 500 per month in 2010 to 482 400 per month in 2011. Accounts filed since 2 April 2007 in the form of XBRL files are also available in that format on the internet. Those files are intended for users wishing to analyse the financial situation of the legal entities concerned

without needing to re-enter the basic data filed. The number of XBRL files consulted via the internet was up from 18 200 per month in 2010 to 23 000 per month in 2011.

### Microeconomic analysis

On the basis of the data collected, the Bank conducts surveys which can be grouped into three broad categories: recurrent surveys of Belgian firms, methodological surveys and risk analyses, and sectoral surveys.

Each year, the Bank publishes in its Economic Review a survey of the results of Belgian companies. This will be supplemented by a survey of corporate financing and a survey of the trend in the population of firms, both over time and in geographical terms.

For a number of years, the Bank has also taken part in the methodological work of various international working groups<sup>(1)</sup> on risk assessment models. This work is of particular interest in connection with the Bank's new prudential supervision activities. In future, it will also be based on the use of the new data to be recorded in the new Central Corporate Credit Register.

Finally, once a year, the Bank publishes a report on the Belgian ports and an estimate of their economic importance. There are also sectoral studies on the airports and on the network industries and the iron and steel sector.

Most of these studies are published in the Working Papers series (see 1.4.).

### 1.1.4 Other duties

#### 1.1.4.1 AT INTERNATIONAL LEVEL

#### International Monetary Fund

In consultation with the government, the Bank takes part in the preparation of positions adopted by the Belgian Executive Director of the International Monetary Fund, who heads a constituency composed of ten countries (Austria, Belarus, Belgium, Hungary, Kazakhstan, Luxembourg, Czech Republic, Slovakia, Slovenia and Turkey). It finances Belgium's contributions to the Fund's capital and conducts financial transactions between Belgium and the IMF. It assists the IMF in its annual survey of Belgium's economic and financial situation.

(1) Including the Working Group on Risk Assessment (WGRA).

## Organisation for Economic Cooperation and Development

The Bank is active in the Organisation for Economic Cooperation and Development (OECD), a discussion forum comprising 34 countries dedicated to democracy and the market economy. The OECD's activities concern economic policy in the broad sense, including the economic aspects of policies on education, scientific research, transport, the environment, and social affairs. The Bank takes part in the work of the Economic Policy Committee, the Financial Markets Committee and the Investment Committee.

## European Union

The Bank helps to devise European legislation on banking and finance, and takes part in the work of a number of committees and working groups operating under the aegis of EU institutions. Thus, it is represented on the Economic Policy Committee and the Economic and Financial Committee which contribute to the preparation of the work of the Economic and Financial Affairs Council and express opinions. The maintenance of financial stability also entails close international cooperation, which takes place particularly at European level (see 1.1.2.1. – Reforms of the European architecture).

## Technical assistance

Finally, the Bank provides technical assistance for some of its colleagues. It draws up priorities here, to refine the targeting of its action and augment its effectiveness. In recent years, the central banks of the Democratic Republic of Congo and of Burundi have been top of the list of priorities. In the Bank's opinion, it is very important that its cooperation with these central banks should be in line with the approach of the Belgian authorities and international institutions (IMF, World Bank). For the Central Bank of Congo, the Bank offers assistance on monetary policy, statistics, payment systems, trading rooms, banknote and coin circulation and IT, while for the Bank of the Republic of Burundi, the assistance concerns monetary policy, payment systems and financial stability. Several times a year, a team is sent out to devise or update an action plan, make recommendations, provide training or give assistance.

Next in order of priority come the countries represented by the Belgian Executive Director at the IMF, the EU candidates or potential candidates, and the partner countries for Belgian development cooperation.

(1) Article 127 (2) of the Treaty on the Functioning of the EU lists these tasks as follows: to define and implement the monetary policy of the Union, to conduct foreign exchange operations, to hold and manage the official foreign exchange reserves of the Member States, to promote the smooth operation of payment systems.

## 1.1.4.2 AT NATIONAL LEVEL

### State Cashier

Ever since the Bank was founded, the State has entrusted it with the role of State Cashier. The content of that role has changed considerably over the years. Nowadays, it mainly involves centralising the State's current revenue and expenditure each day in a single account. Following addition of the balance of the Post Office transactions and in consultation with the Treasury, surpluses are allocated to investments, and deficits are covered by short-term borrowings.

The Bank also plays an important role in the issue of State loans, taking charge of their financial servicing. The Bond Centre payment agency enables bank branches to submit redeemable securities and coupons due direct to the Bank for encashment, without first collecting them centrally at their head office. Nowadays, securities issued by the State are dematerialised.

### Exchange reserves

In connection with the basic tasks under the ESCB<sup>(1)</sup>, the Bank holds and manages the State's foreign exchange reserves. The risks associated with this activity are listed in the management report (see 2.1.2).

In accordance with Article 30 of the Protocol on the Statutes of the ESCB and the ECB, the Bank has transferred to the ECB an amount of foreign exchange reserve assets proportionate to its share in the subscribed capital of the ECB. It manages those assets on behalf of the ECB and in accordance with its guidelines.

### Information and protection for individuals

#### Protection against excessive debt

The Central Individual Credit Register is a tool for combating excessive debt. It records all credit contracts concluded for private purposes by individuals, and any instances of default on such loans. Lenders must consult the Register before granting credit, and borrowers may also consult their own data on it. The Register can be consulted via the internet or at the Bank's counters.

The impact of the crisis is clearly visible in the Central Register's figures. Since the end of 2008, the default indicators have risen steadily. In 2011, consumers still faced increasing payment problems. The number of borrowers with payment arrears was up by 3.3% at 319 092 persons, representing a total of € 2.55 billion, a rise of 5.4%. The number of collective debt settlements is also still rising.

In that context, there are calls for extending the Central Register to new types of debt. The federal minister responsible for consumer protection asked the Bank to examine this possibility.

#### Deposit and Financial Instrument Protection Fund

Belgium has a number of forms of protection for individuals, associations and small and medium-sized firms in the event of the failure of a credit institution or investment firm.

There is a guarantee of € 100 000 covering cash deposits and other similar savings assets. In the case of financial instruments which these customers have entrusted to the institutions concerned, protection amounting to € 20 000 applies to such instruments which cannot be returned despite the customers' direct right to claim them back.

The Deposit and Financial Instrument Protection Fund intervenes under these guarantee systems. This public institution is directed by a Management Committee with representatives of the government, credit institutions and investment firms. The Bank is responsible for its day-to-day management. Its operating procedures and annual reports can be consulted on its website ([www.protectionfund.be](http://www.protectionfund.be)).

#### Educational activities

In 2005, the EU's Economic and Financial Affairs Council (Ecofin) asked the Member States to step up their efforts in the field of financial education. In that same year, the OECD published the first international study on the subject, together with a number of guidelines concerning good practice in that area. This work highlighted the effectiveness of long-term financial education programmes so long as they are accompanied by raised awareness among the general public and in the teaching world. Since then, the economic crisis – which originated in financial practices which are often impossible for the general public to fathom – has reinforced this need.

At the Bank, publications and other information media aimed at the general public or schools have proliferated since 2002. In that year, the Bank's Museum was remodelled to become a popular point of contact with the educational world. In 2011, it presented an exhibition linked to the Europalia Brasil festival and devoted to exchange and value systems in Brazil.

Since 2008, the Bank has also been holding seminars for secondary teachers of economics. The 2011 seminar, which concerned a perspective on the Belgian economy in the crisis, was attended by almost 5 00 participants. In addition, in order to provide a permanent basis for its links with the teaching world, the Bank's Museum has a specific website ([www.nbbmuseum.be](http://www.nbbmuseum.be)), covering all the available teaching aids.

Finally, the Bank has one of the most comprehensive economic and financial libraries in Belgium. Its opening hours have been extended to Saturdays to provide greater access, especially for students.

## 1.2 Human Resources

On 1 April 2011, one hundred and ninety-one staff of the former CBFA were transferred to the Bank. They were allocated to the new services in charge of prudential supervision. The preparations for this operation were meticulous, ensuring trouble-free integration. The extension of the duties created new staffing requirements for which the Bank launched an internal and external recruitment campaign. A new code of ethics was also introduced on this occasion.

Following the reorganisation, the workforce totalled 2 101 full-time equivalents, or 174 units more than at the end of 2010.

Since the beginning of 2012, the staff IT system which used to run on mainframe computers has been replaced by an external application of the social secretariat *SD Worx*. A complete databank was constructed, combining all the information relating to human resources and payments, taking account of the Bank's structures.

The new staff promotion system permits promotions on the basis of job classifications, performance appraisal and seniority. In addition, development programmes are defined at job appraisal interviews, to ensure maximum staff employability.

The 2012 procedure for the election of staff representatives was launched. It is essential to adhere strictly to the legal timetable. The elected staff members will have a seat on the various staff consultation bodies at the Bank.

### 1.2.1 Staff movements

#### Number of staff

(full-time equivalents as at 31 December)

2000	2 406
2001	2 418
2002	2 319
2003	2 250
2004	2 174
2005	2 120
2006	2 052
2007	2 032
2008	2 008
2009	1 964
2010	1 927
2011	2 101

### 1.2.2 Obituaries and retirement

In 2011, the Bank was saddened to hear of the death of Frans Junius, Honorary Director. Mr Junius joined the Bank in 1955. He was appointed Secretary in 1978 and Director in 1980.

During the year under review, the Bank was also saddened by the death of Mr Paul Welis.

They will always be remembered.

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\* \*

The Bank would like to express its gratitude to the members of its managerial and supervisory staff who reached the end of their career last year:

S. Bertholomé

C. Glavie

It also thanks a member of the clerical staff whose career came to an end in the past year: Mr T. Beeckmans.

## 1.3 Sustainable management

In 2008, the Bank had submitted an application to the Brussels Institute of Environmental Management (IBGE/BIM) for the award of the "Ecodynamic Enterprise" label, which it achieved with two stars. The candidacy procedure had led to the involvement of a large number of staff in the Bank's environmental management; they felt that they had been given responsibility, and took numerous initiatives in this area. Painstaking internal communication has converted this movement into a veritable 'green wave' at the Bank, which thus intended to make its contribution towards raising general environmental awareness.

The award of the third star – the top level – was the highlight of 2011 in this respect. It represents a new stage in sustainable management at the Bank. To obtain this new distinction, the Bank rigorously implemented the environmental programme launched in 2008. Various supplementary projects were also carried out, such as the combined generating project.

Since the Bank had already achieved a good performance in energy saving, it is the other environmental sectors relevant to its activities that have been the main focus of attention since 2008. A study was conducted to review waste flows and container facilities, while efforts were made to find ways of separating organic kitchen waste from other waste. Regarding mobility, and in order to reduce the number of journeys by air, teleconferences were encouraged, together with the use of high-speed trains for short European trips. On the purchasing side, 40 of the 119 types of products are now sustainable.

Examples of measures included in the new environmental programme are: constant communication on sustainable management via a specific intranet site, closer transverse cooperation between departments, improvements in the involvement of agencies, and finally, the launch of a number of environmental projects, such as adiabatic humidification in the printing rooms, to reduce the use of steam.

## 1.4 List of publications in 2011

### Economic Review

#### JUNE

- *Economic projections for Belgium - Spring 2011*
- *Central bank rates, market rates and retail bank rates in the euro area in the context of the recent economic and financial crisis*
- *End of the crisis in the housing markets? An international survey*
- *Behaviour of Belgian firms in the context of globalisation: lessons from the conference on "International Trade: Threats and Opportunities in a Globalised World"*
- *The Belgian labour market during and after the crisis*

#### SEPTEMBER

- *Economic impact of the public debt*
- *The Europe 2020 strategy*
- *Developments in private consumption over the past three years*
- *The economic impact of the fight against climate change*
- *The impact of low interest rates on household financial behaviour*

#### DECEMBER

- *Economic projections for Belgium - Autumn 2011*
- *Public sector wages*
- *The distributive trade sector and its impact on euro area prices*
- *International trade in services*
- *Results and financial situation of firms in 2010*
- *The social balance sheet 2010*

### Working Papers

- 210. *Estimating monetary policy reaction functions: A discrete choice approach*
- 211. *Firm entry, inflation and the monetary transmission mechanism*
- 212. *The link between mobile telephony arrears and credit arrears*
- 213. *Development of a financial health indicator based on companies' annual accounts*
- 214. *Wage structure effects of international trade: Evidence from a small open economy*
- 215. *Economic importance of the Belgian ports: Flemish maritime ports, Liège port complex and the port of Brussels - Report 2009*
- 216. *Verti-zontal differentiation in monopolistic competition*
- 217. *The evolution of Alexandre Lamfalussy's thought on the international and European monetary system (1961-1993)*
- 218. *Economic importance of air transport and airport activities in Belgium – Report 2009*

## Belgian Prime News

This quarterly publication in English is produced jointly by the Bank, the Federal Public Service Finance (FPS Finance) and a number of Primary Dealers.

- 50. Special topic: *The Belgian Treasury's 2011 Funding Plan published, in a context of renewed strains in the bond market*
- 51. Special topic: *New architecture for the supervision of the financial system in Belgium*
- 52. Special topic: *Belgium's current robust economic performance should not be taken for granted*
- 53. Special topic: *The Belgian situation within the context of current turbulences*

## Statistical publications

The Bank provides a mass of macroeconomic statistics for the public on its website and via its statistical database, Belgostat. It is possible to subscribe for updates of specific tables. To cut down on the use of paper, the following publications are available in electronic format; they can also be printed on request:

### GENERAL STATISTICS:

- Statistical Bulletin

### FOREIGN TRADE:

- *Quarterly Bulletin*

### NATIONAL ACCOUNTS:

- *Quarterly sector accounts*
- *Quarterly accounts*
- *First estimate of the annual accounts*
- *Government accounts*
- *Detailed accounts and tables*
- *Supply and use tables*
- *Regional accounts*
- *Satellite accounts of non-profit institutions*

### MICROECONOMIC DATA

- *Statistics. Central Individual Credit Register – 2010*

Every quarter, the Bank publishes in electronic format the Central Corporate Credit Register statistics on credit authorised and used. The Central Balance Sheet Office makes available the data on annual accounts which it collects, providing them for various target groups in various digital formats. A copy of the CD-ROM *Figures from standardised annual accounts* is also available on request.

## Other publications

- *Corporate Report 2010. Activities, governance and annual accounts*
- *Report 2010. Economic and financial developments*
- *Financial Stability Review 2011*
- *Annual Report of the Securities Regulation Fund 2010*
- *Of gold and feathers. Exchange and value systems in Brazil, Europalia Brasil exhibition catalogue*

IN COLLABORATION WITH THE FEDERAL PLANNING BUREAU:

- *Note for the Formateur. Models and assumptions underlying the macroeconomic projections used in the simulations for reform of the Special Finance Act (excluding transfers of new powers) (September 2011)*
- *Reductions in social security contributions and alternative funding arrangements (April 2011)*

JOINT REPORT BY THE BANK, THE CENTRAL ECONOMIC COUNCIL AND THE FEDERAL PLANNING BUREAU

- *Competitiveness challenges in Belgium*

## 1.5 Contacts

SERVICES	ESTABLISHMENTS OFFERING SERVICES	OPENING HOURS
Banknotes and coins, State Cashier, Central Balance Sheet Office, Central Individual Credit Register	Brussels, Boulevard de Berlaimont 3, Antwerp, Kortrijk, Hasselt, Liège and Mons	9.00 to 15.30 hrs, Monday to Friday
Library	Brussels, Rue Montagne aux Herbes Potagères 57	10.00 to 17.00 hrs, daily except Sundays
Museum	Brussels, Rue du Bois Sauvage 10	10.00 to 18.00 hrs, daily except Mondays

### INFORMATIONS

Website:	<a href="http://www.nbb.be">www.nbb.be</a>
Inquiries:	<a href="mailto:info@nbb.be">info@nbb.be</a> Tel. +32 2 221 21 11
Press officer:	Kristin Bosman, General Secretariat Tel. +32 2 221 46 28 Fax +32 2 221 31 60 <a href="mailto:pressoffice@nbb.be">pressoffice@nbb.be</a>
Contact for the financial service for the Bank's shares:	Luc Janssens, Securities Service Tel. +32 2 221 45 90 Fax +32 2 221 31 19 <a href="mailto:securities@nbb.be">securities@nbb.be</a>

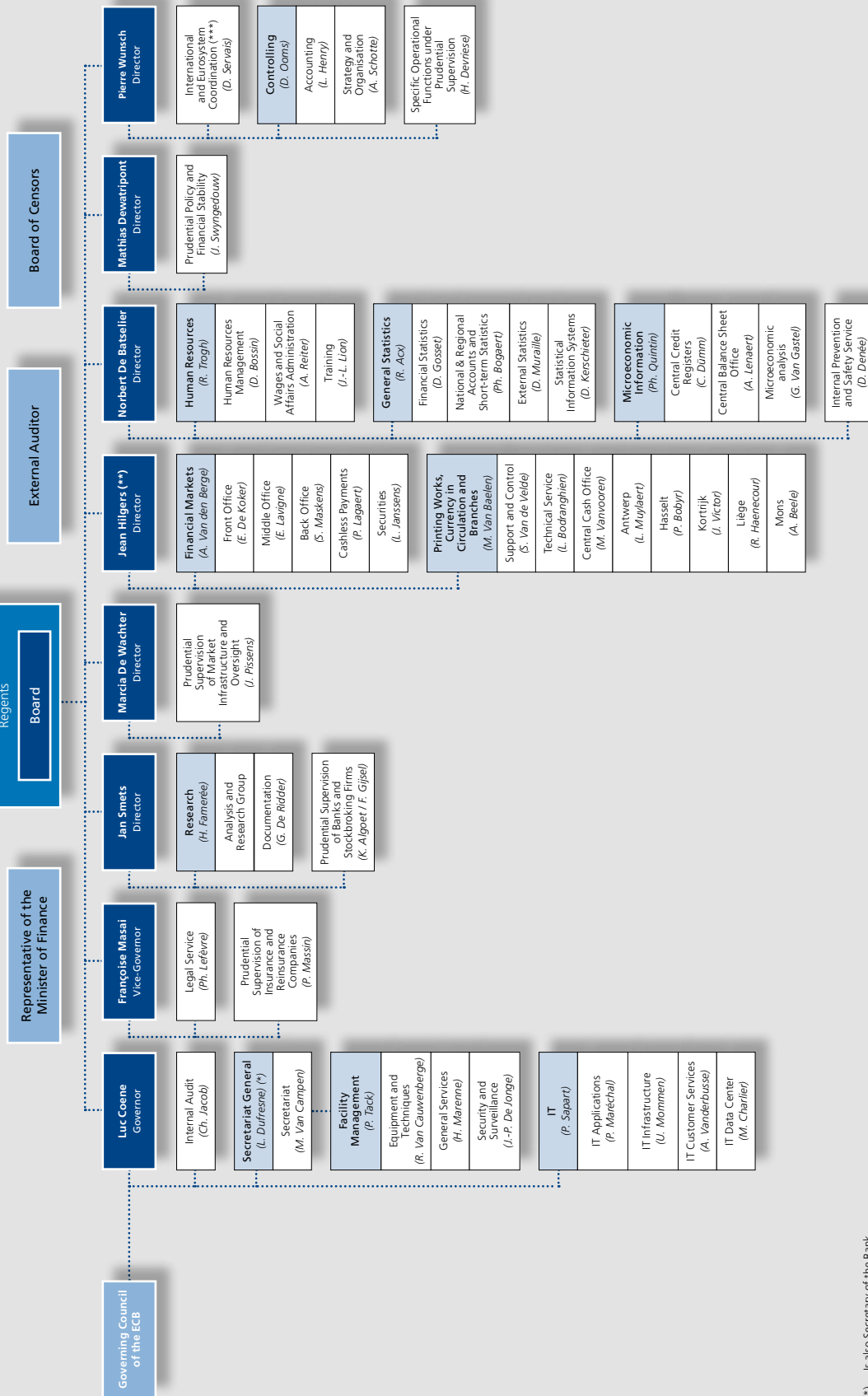
### ADDRESSES

Brussels:	Boulevard de Berlaimont 14, 1000 Brussels Tel. +32 2 221 21 11 Fax +32 2 221 31 00 <a href="mailto:info@nbb.be">info@nbb.be</a>	Hasselt :	Eurostraat 4, 3500 Hasselt Tel. +32 11 29 92 11 Fax +32 11 29 93 90 <a href="mailto:hasseltsg@nbb.be">hasseltsg@nbb.be</a>
Antwerp:	Leopoldplaats 8, 2000 Antwerp Tel. +32 3 222 22 11 Fax +32 3 222 22 69 <a href="mailto:antwerpensg@nbb.be">antwerpensg@nbb.be</a>	Liège :	Place St-Paul 12-14-16, 4000 Liège Tel. +32 4 230 62 11 Fax +32 4 230 63 90 <a href="mailto:liegesg@nbb.be">liegesg@nbb.be</a>
Kortrijk:	President Kennedypark 43, 8500 Kortrijk Tel. +32 56 27 52 11 Fax +32 56 27 53 90 <a href="mailto:kortrijksg@nbb.be">kortrijksg@nbb.be</a>	Mons :	Avenue Frère-Orban 26 7000 Mons Tel. +32 65 39 82 11 Fax +32 65 39 83 90 <a href="mailto:monssg@nbb.be">monssg@nbb.be</a>

Departments and Services: see website.



# Organisation chart as at 1 January 2012



(\*) Is also Secretary of the Bank.  
 (\*\*) Is also Treasurer of the Bank.  
 (\*\*\*) Reports to the Governor.